chased a second block of ABC for $80,000. One year ago, the second block sold for $100,000, but now it is down to $90,000.

Smith wants to make a $90,000 gift to our institution. He also wants to sell some of his ABC stock because he thinks it will go down further. Good tax planning says he should contribute the block of ABC stock with the $50,000 cost-basis rather than the block with the $80,000 cost-basis. His charitable deduction for either block is $90,000, the current fair market value. However, by giving the stock with the $50,000 cost-basis, Smith avoids the $40,000 capital gain which he would incur on a sale. The capital gain on a sale of the second block of stock would only be $10,000. Thus Smith gets maximum tax benefit by contributing the block of ABC stock which has the greatest appreciation—the block which cost him $50,000. There is no capital gain to Smith or our institution if we sell the ABC stock contributed to us.

Example 2: Bradley has XYZ stock which he purchased three years ago for $60,000. It is now down to $50,000 and Bradley plans to sell it because he believes its value will decline even further. Bradley also wants to make a $50,000 gift to our institution.

The tax saving rule for making a gift of securities which have gone up in value is: give the securities to the charitable institution instead of selling them and giving the proceeds. By so doing, donor gets a charitable deduction for the full fair market value and completely avoids capital gains tax on the appreciation. However, when the stock is worth less than its cost (Bradley's case) it should be sold and the proceeds contributed. Otherwise, donor forfeits the capital loss deduction. Thus, Bradley should sell the securities for $50,000 and contribute the proceeds. He gets a $50,000 charitable deduction (the same deduction a gift of the securities would generate) *and* a $10,000 capital loss deduction.

MAKING GIFTS WHEN YOU HAVE YOUR OWN PRIVATE FOUNDATION

The tax value of your gift. The new tax law reduces the benefits of appreciated property gifts made directly to private foundations. For gifts of securities and real estate held more than six months, for example, the deduction is limited

year. Remember, however, that medical bills are only deductible to the extent they exceed 3% of your adjusted gross income. If your medical bills do not exceed 3% of your adjusted gross income, you will be better off waiting until next year to pay them—because in no event can you deduct them this year.

A corollary to the rule that you should try to take as many deductions as possible if you will be in a higher tax bracket this year than next: postpone (where possible) some of your income until next year. What income can be postponed?

Bonuses. It is sometimes possible to have your employer give you this year's bonus at the beginning of next year rather than at the end of this year. If you are not entitled to the bonus as a matter of right because of work performed or by agreement, but your employer is free to give or not give the bonus, payment of the bonus at the beginning of next year will shield it from tax on this year's return. Instead, it will be taxed next year.

Government Savings Bonds. When you redeem U.S. Series E Savings Bonds you pay ordinary income tax on the increment—the difference between the purchase price and the redemption price. You can postpone the tax on the increment by waiting until the beginning of next year to redeem your bonds.

Large capital gain on sale of business, real estate, securities, etc. If you sell highly appreciated property this year, you will have a large capital gain. It may be to your advantage to elect the "installment method" of reporting the gain on your sale. This optional method of reporting capital gains enables you to prorate your profit over the period you receive payments. To qualify for the installment method, you cannot receive more than 30% of the sales price in the year of the sale; other tests must also be met.

Professionals and business men. If you are on the cash accounting method you can often defer income to next year by waiting until the beginning of next year to send out bills for services rendered toward the end of this year.

Some income cannot be postponed. Income you receive (or are entitled to) for interest on

bonds and savings accounts, dividends on securities and salary from your employer for work performed this year cannot be postponed until next year. If you are entitled to the income this year, you cannot postpone the tax even though —for one reason or another—you do not receive payment until next year.

As in all cases, consult your own advisors for how the general rules apply to you.

FULFILLING YOUR PLEDGE

Pledges are deductible in the year in which they are paid, not when made. If you expect to be in a higher bracket this year than next, fulfilling your pledge this year means extra tax savings.

> *Example:* Bigelow pledged $2,000 to our institution for next year. His top tax bracket this year is 40%. Next year, his top bracket will be 25%. By fulfilling his pledge this year, his $2,000 contribution saves him $800 in taxes ($2,000 x 40%). If Bigelow waits until next year to satisfy his pledge, the $2,000 gift saves $500 in taxes ($2,000 x 25%). He saves an additional $300 by paying his pledge this year.

Pledges can be satisfied with money or appreciated securities.

APPRECIATED SECURITIES AND REAL ESTATE GIFTS

A gift of appreciated securities or real estate gives you a charitable deduction for the full present fair market value when you have held the property more than six months.* And you completely avoid tax on the appreciation (difference between your cost-basis and present fair market value).

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*Gifts of appreciated securities and real estate—held more than six months—to schools, churches, hospitals and other publicly supported charities are deductible up to 30 percent of adjusted gross income with a five year carryover for any "excess". The ceiling can be increased to 50 percent of adjusted gross income if the amount of the deduction for all long-term appreciated property gifts during the year (and any remaining carryover for appreciated property gifts from 1970 and later years) is reduced by one half of the appreciation. We will be pleased to discuss the best way of increasing the ceiling with you and your advisors.

Gifts of money, short-term securities and short-term real estate are deductible up to 50% of adjusted gross income —with a five year carryover for any "excess".

> *Example:* Dennis contributes securities to our institution which cost him $6,000 (more than six months ago) and which are now worth $10,000. He receives a $10,000 charitable deduction and completely avoids tax on the $4,000 appreciation.

Appreciated securities and real estate held six months or less. Here the charitable deduction is allowed for the property's cost-basis only. It is generally wise to wait until the holding period is more than six months before contributing appreciated securities or real estate. Once the property is held more than six months, you deduct the full fair market value—not the lower cost.

> *Example:* Farnsworth has securities which he purchased 5½ months ago for $8,000 which are now worth $10,000. If he contributes them now his contribution deduction is the $8,000 cost even though the securities are worth $10,000. By waiting another 16 days to make his gift—until his holding period is more than six months—he deducts the full fair market value. Assuming the fair market value is still $10,000, he deducts $10,000. If the value has risen to $10,500, that is his deduction. If the value has declined to $9,500, he deducts $9,500. This is still greater than the $8,000 deduction allowable if he contributed the securities when he held them less than six months.

SECURITIES WHICH HAVE GONE DOWN IN VALUE

Unfortunately, some of us have securities which have gone down in value. How can these best be contributed? If your securities have gone down in value but are still worth more than your cost-basis, it still makes good tax sense to contribute the securities themselves. Your decision is then how best to select the securities to contribute. However, if you have securities which are now worth less than the cost-basis and you wish to make a gift of them, the best way is to sell them and contribute the proceeds. That way, you get a capital loss deduction as well as a charitable deduction.

> *Example 1:* Smith purchased a block of ABC stock five years ago for $50,000. One year ago, the stock was selling for $100,000. However, now it is down to $90,000. Two years ago, Smith pur-